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Committee on Appropriations
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Chairman Kolbe, members of the subcommittee: It is an honor to be here today to discuss the President's budget for the U.S. Agency for International Development for fiscal year 2005. Before beginning our presentation, I want to thank the Chairman and the other members of the committee and their staff for the support you have shown for our programs and the help you have provided us to increase our staff resources that is allowing USAID to play the critical role it does in our national security.

September 11 and the war on terrorism have brought the most fundamental changes in security challenges facing the United States since the beginning of the Cold War. This was the theme that Secretary of State Colin Powell brought to Congress in multiple testimonies this month and last. Recent events in Madrid underscore the urgency of his remarks and the global nature of this challenge.

To address these new challenges, in September 2002, President Bush unveiled his National Security Strategy. It outlined the new direction in foreign policy that was required to respond effectively to what occurred the previous September. Among the tools that would be engaged in the new war was "development." Indeed, it was elevated as a "third pillar" of our foreign policy, along with defense and diplomacy. This brought USAID into the front lines of a new kind of war that defied the conventional thinking of the past.

This has led to a broadening of USAID's mandate, thrusting us into situations that go beyond our traditional role. The U.S. Agency for International Development has historically been associated with foreign assistance programs aimed at helping traditional developing countries, supporting important geostrategic partners, and providing humanitarian assistance. We will continue these commitments, while reorienting our approach to traditional development programs. But, the changes wrought by the end of the cold war and more recently by the terrorist attacks of September 11, 2001, have led us to concentrate more of our effort and resources on fragile and failing states, post-conflict recovery, and addressing global and transnational issues.

As the National Security Strategy states: "America is now threatened less by conquering states than by failing ones." These fragile states are characterized by a growing inability or unwillingness to provide even basic services and security to their populations. Our goal is to stabilize, reform, and help these states recover to a point where they are better able to provide for their own further development. We are developing a strategy for fragile states that focuses on the causes of institutional weakness and violent conflict, whether in circumstances of complex disaster, post-conflict reconstruction or stagnant growth. The creation of our Bureau of Democracy, Conflict, and Humanitarian Assistance, and the Office of

Conflict Management and Mitigation within it, are major initiatives to address this new and difficult area in foreign assistance.

USAID is reorienting its approach to more traditional developing country programs. We are committed to supporting transformational development, which not only raises living standards and reduces poverty, but also aims to transform countries through far-reaching, fundamental changes in institutional capacity, human capacity, and economic structure. The primary determinant of progress in transformational development is political will by a country's leadership, demonstrated by ruling justly, promoting economic freedom, and making sound investments in people. If commitment does not exist in a country, USAID will redirect its resources to help create a more conducive environment for reform, or move its transformational development resources to where there is such commitment.

Successful transformation requires economic growth. The National Security Strategy states: "Economic growth supported by free trade and free markets creates new jobs and higher incomes. It allows people to lift their lives out of poverty, spurs economic and legal reform, and fight against corruption, and it reinforces the habits of liberty." The people of the developing world, especially women and other traditionally oppressed groups, must have the freedom to build private enterprises and create wealth in order to improve their condition. USAID will work with other committed countries to implement the reforms which will help them to attract the financing they need, and equally importantly, acquire the technologies and ideas which will invigorate their development. Likewise, in the best performing developing countries, we will fully support the Millennium Challenge Corporation in their efforts to spur economic growth in order to reduce poverty.

Many of the issues we confront, whether in fragile or transformational development states, will be of a transnational nature. The impacts of transnational issues, such as HIV/AIDS, global climate change, and trafficking in illicit drugs and people, demand a more global and coordinated response. I am proud to say that USAID has risen to the challenges we, as a nation, face.

USAID's higher profile in our foreign policy initiatives since the war on terror began can be measured in budgetary terms. The commitment to the Agency has been substantial and growing as we administer funds from a number of Foreign Affairs accounts. In FY [fiscal year] 2003, for example, we administered a nearly $14.2 billion portfolio, including supplemental funds for Iraq, which is up from $7.8 billion in FY 2001. We are proud of this vote of confidence and anxious to make good on our daunting responsibilities.

The Administration's request for programs administered by USAID for FY 2005 is $8.823 billion, as follows:

-- $3.197 billion in accounts managed directly by USAID: $1.329 billion for Development Assistance; $1.420 billion for Child Survival and Health; $386 million for International Disaster and Famine Assistance; and $63 million for Transition Initiatives.

-- $3.709 billion in accounts co-managed with the State Department: $2.520 billion in Economic Support Funds; $550 million for the Independent States of the Former Soviet Union; $410 million for Eastern Europe and Baltics; and $229 million for the Andean Counterdrug Initiative.

-- $1.185 billion in P.L. 480 Title II [food aid] funds, appropriated through USDA [U.S. Department of Agriculture].

-- $731.2 million for administrative costs, which is comprised of: $623.4 million for salaries and other support costs; $64.8 million for the Capital Investment Fund; $35 million to support the Office of the Inspector General; and $8 million to administer credit programs.

We will also manage a portion of the $1.45 billion requested for the Global HIV/AIDS Initiative in conjunction with the State Department's Global AIDS Coordinator. Moreover, we will coordinate closely with the Millennium Challenge Corporation in the allocation of resources both in eligible countries, and in those countries that demonstrate a strong commitment to meeting the threshold requirements for eligibility for Millennium Challenge Account funding.

For FY 2005 we have six top priorities: building a free and prosperous Iraq; winning the peace in Afghanistan; championing peace in Sudan; ending famine in Ethiopia; fighting HIV/AIDS; and supporting other key initiatives. These priorities, along with the other elements of our FY 2005 programs, reflect our core mission: promoting transformational development; strengthening fragile states; and providing humanitarian relief.

Program Priorities

Building a Free and Prosperous Iraq. While the FY 2005 budget request does not contain new funding for Iraq, our post-war rebuilding efforts remain a central part of our operations. When USAID initiated programs in Iraq in 2003, a vacuum of political power coupled with limited infrastructure made for a difficult operating environment. Amid challenges, USAID is working closely with the Coalition Provisional Authority in Iraq to provide humanitarian and reconstruction assistance with funds from the Iraq Relief and Reconstruction Fund to help the Iraqi people reclaim their country. Iraqis enjoy new opportunities to engage in political discourse at the local level through interim bodies that USAID has supported. USAID is also helping to restore the power supply, reequipping over 600 primary health care facilities, playing a major role in refurbishing over 2,000 schools, rebuilding water treatment and supply systems and other infrastructure that contribute to the local economy and employment generation. Simultaneously, USAID is helping to restore basic healthcare services to vulnerable people and is strengthening the national education system.

Winning the Peace in Afghanistan. USAID is committed to the President's goal of seeing a stable and democratic Afghanistan that is free from terror and no longer harbors threats to our security. As an integral implementing agency for the 2004 supplemental funds for Afghanistan, USAID's reconstruction programs remain focused on six visible building blocks to support Afghan efforts to transform their society: infrastructure, particularly improving primary and secondary roads; agriculture and rural development targeted at enhancing food security through agricultural productivity and market development; working with targeted communities to improve education; economic governance programs aimed at banking, budget and investment law reform; health care, particularly reducing maternal mortality rates; and reconstituting the basic institutions of government. In fulfillment of one of the President's commitment, USAID completed the first phase of reconstruction of the Kabul-Kandahar Highway in December 2003. This initiative has revitalized entire villages along the 389 kilometer route, directly benefiting over 35 percent of the Afghan population that lives within 50 kilometer of the highway. More broadly, the road enables the movement of the people, aid resources, and agricultural and trade goods essential to Afghanistan's national development. The Administration's FY 2005 funding request for Afghanistan is $397 million to support these efforts. As in Iraq, our commitment to education -- in restoring facilities, training, and curriculum reform -- is at the heart of our initiatives and hopes for the future regeneration of these societies.

Championing Peace in Sudan. USAID continues to be at the forefront of sustained international engagement to end Sudan's long North-South civil war. Should a peace agreement be concluded, USAID and other donors are poised to help southern Sudan begin the process of longer-term recovery with development programs that expand essential social services and foster economic development, build infrastructure, and support the new government of South Sudan. However, it is incumbent on me to mention that as peace and stability have returned to some parts of Southern Sudan, the world's worst humanitarian crisis has developed in Darfur. In the past year, a new civil war broke out in Western Sudan, where the Government of Sudan is following the same pattern of behavior as it did in the war in the South. The government is arming Arab militias to systematically attack civilians, while engaging in a policy of terror, murder, rape, and devastation. This is forcing a mass migration of hundreds of thousands in what amounts to an ethnic cleansing campaign. The conflict is Muslim against Muslim, and African against Arab. Up to three million people in Darfur are affected by this conflict; nearly a million people have been internally displaced. USAID is working aggressively with the Department of State, other donors and the United Nations to bring an immediate humanitarian ceasefire, and access with the presence of international monitors to this new western conflict. As Coordinator of the United States Government's humanitarian policy in Sudan, I was present in the country two weeks ago. We are assessing the situation closely and are ready to aid the peace initiative and exploit all possibilities to help meet the humanitarian disaster. Despite the current uncertainty, USAID's strategy is designed to support

the peace process, and will focus on education, health, economic recovery, infrastructure, and governance. For FY 2005, we plan to make $336 million available from all USAID accounts for assistance to Sudan.

Ending Hunger and Famine in Ethiopia. For the past 20 years, the cycle of famine has repeated itself again and again throughout Africa. We have a program in Ethiopia which we believe will serve as a model for combating the underlying causes of hunger and famine for sub-Saharan Africa. Each time famine strikes, the number of hungry and destitute rises, along with the toll of human suffering and disease. To rectify this, the Ethiopian government needs to substantially change its policies, and the donor community needs to address the underlying causes of famine. USAID has developed a strategy to manage the transition from emergency-dominated programs to one which proactively promotes economic growth, especially in the agricultural sector. We are coordinating efforts that invest in people's health and education; that lay the groundwork to establish a market-based economy hospitable to investment; that facilitate good governance a the national, regional, and local levels. We are also supporting actions that better track potential famines and streamline responses. For FY 2005, our total request for Ethiopia is over $80 million.

Fighting the HIV/AIDS Pandemic. The HIV/AIDS pandemic is more than a health emergency. It is a social and economic crisis that is threatening to erase decades of development progress. The pandemic has tended to hit hardest in the most productive age groups and in developing countries that can least respond. Sub-Saharan Africa remains the most affected region with 70 percent of the total number of people worldwide living with HIV/AIDS. USAID's programs aim to reduce HIV/AIDS transmission and improve access to care, treatment, and support for people living with HIV/AIDS and children affected by HIV/AIDS. Under the leadership of the State Department's Global AIDS Coordinator, USAID will scale up its work in expanding access to anti-retroviral treatment, reducing mother-to-child transmission, increasing the number of individuals reached by community and home-based care, providing essential services to children impacted by HIV/AIDS, and promoting education and behavior change programs that emphasize prevention of transmission. The FY 2005 request for HIV/AIDS is $600 million from the Child Survival and Health account, which includes $100 million for the Global Fund to Fight AIDS, Tuberculosis and Malaria. In addition, $1.45 billion is requested for the Global HIV/AIDS Initiative managed by the State Department Coordinator in partnership with USAID and other U.S. Government agencies.

Supporting Other Key Initiatives. The President and Congress have supported a number of key core development-related initiatives to achieve a broad range of outcomes, from improving agricultural productivity to strengthening democratic institutions to protecting tropical forests. We want to highlight for you two of the more important: Trade and Education.

The U.S. Government defines Trade Capacity Building [TCB] as activities comprising the following three categories: participation in trade negotiations; implementation of trade agreements; and economic responsiveness to opportunities for trade. We have been an active partner with USTR [Office of the U.S. Trade Representative] and other agencies in ensuring that U.S. TCB efforts support the Administration's negotiating agenda. To support negotiations on the bilateral Free Trade Agreements (FTAs), we and our trading partners have set up parallel bilateral TCB discussions, with USAID and USTR sharing the lead in the TCB discussions. This has helped us respond quickly to needs that emerge in the negotiating process, and adjust our long term assistance programs to address the challenges our developing country partners face in implementing the FTAs. For example, in support of the Southern African Customs Union (SACU) negotiations, USAID's Trade Hub in Botswana is funding TCB facilitators to help the participating countries identify their TCB needs and priorities; following on the Central America Free Trade Agreement process, we began to implement a series of major projects to address CAFTA implementation priorities that surfaced during the negotiations. USAID TCB assistance increased 30% from $423 million in 2001 to $548 million in 2003. Between 2001 and 2003, TCB funding to countries with which the U.S. is pursuing Free Trade Agreements (Morocco, the Andean Pact, CAFTA, and SACU) more than tripled. For FY 2005, we expect to continue to this trend and to meet or exceed the level of funding we provided in FY 2003.

In order for trade agreements to translate into investment opportunities, developing countries must have a sound business climate. In much of the developing world, however, it remains difficult to start and run a

business. We are addressing some of the key issues related to property rights, contract enforcement, and rule of law that are part of the enabling environment that allows businesspeople, investors, and farmers to build private enterprises and create wealth. Promoting greater access to the Internet and other advanced communications technologies is critical for bringing rural and agricultural areas into the information age and will release their potential for greater social and economic development. USAID is contributing to this goal through its three-year, $10 million "Last Mile Initiative."

USAID requests just over $212 million in Development Assistance for basic education. We define basic education broadly, to include all program efforts aimed at improving early childhood development, primary education, and secondary education -- delivered in formal or informal settings -- as well as training for teachers working at any of these levels. USAID gives the highest priority to the education of girls. We also emphasize training in literacy, numeracy and other basic skills for adults or out-of-school youth as basic education. We are close to completing a new education strategy, which will have the following priorities:

-- Universal primary education;

-- Maximum coordination and partnership with the private sector, other donors and other U.S. agencies;

-- Efficiency and innovation in the delivery and use of available resources;

-- Full access to quality education that is relevant to the needs of the community and the individual's ability to earn a decent living.

-- Support for additional Centers of Excellence if they are appropriate to a country's circumstances.

Management Reforms

The demand to meet complex foreign policy and international development challenges requires a USAID with modern business systems, organizational discipline, and the right number of qualified well-trained people to manage its programs. Understanding the performance of our programs and country partners is key to our results-oriented goals. We must be able to place our resources where we get the maximum return. To meet these challenges, our FY 2005 budget will focus on:

-- Strengthening our ability to respond to crises and emerging priorities by implementing our Development Readiness Initiative, and strengthening employee training. This will allow us to close critical staffing gaps and bring on board 50 new hires above our expected attrition level.

-- Continue implementation of the plan begun in FY 2004 that, with the support of the Congress, is allowing us to hire 255 limited career appointment direct hires through FY 2006.

-- New budget authority to convert 50 program-funded positions to direct hire status once USAID completes a comprehensive workforce analysis.

-- Increase our Capital Investment Fund to: Expand our core accounting system to our field missions and provide the us with an agency-wide financial management system; and support USAID participating in the State-managed Capital Security Cost Sharing program, which will finance construction of new facilities and thereby permit USAID to co-locate on new embassy compounds as required by the Secure Embassy Construction and Counterterrorism Act of 1999.

I consider the reform of our management systems and processes among our highest priorities. Solid management systems facilitate the transparency that is necessary for informed decision making. Enhancements to our management systems rest on three key platforms:

-- The entire Agency will operate with a single, integrated financial management system as we finish our deployment of Phoenix to field missions by the first quarter of FY2006.

-- A new automated procurement and contracting system, developed in partnership with the Department of State, will be deployed in Washington in FY2005, with deployment to field missions following in FY2006.

-- The ability to view data across the Agency will be enhanced by the development of a management information system, which will draw on the two aforementioned systems and others to produce a complete picture of our data for improved decision making. The key elements will be installed Agency-wide by the end of FY2005.

Implementation of these management programs relies on the continued development of USAID's enterprise architecture for its IT [information technology] systems. We are collaborating with the State Department on these systems, and we are aligning our business models with the Federal Enterprise Architecture. A fully developed Enterprise Architecture will allow us to precisely determine what systems are needed to support our work, and ensure that they are integrated and our business model will facilitate right-sizing and regionalize program delivery, as appropriate.

Some of the first results of our management reform efforts include the first-ever unqualified, clean audit opinion awarded by the Office of the Inspector General for all five categories of year-end financial statements. Also this year we successfully conducted comprehensive reviews of a number of programs with the Office of Management and Budget's program assessment reporting tool (PART).

The enhancement of our budgeting and information processes is also permitting an improved understanding of our operating expenses. Under the authority granted us in the FY 2004 Consolidated Appropriations Act, we are developing an administrative cost rate to finance those costs not covered in the FY 2004 budget for programs in the Asia and Near East region. The budget requests authority for USAID, in collaboration with the State Department and the Office of Management and Budget, to develop and implement a pilot program to determine and recover the actual operating and administrative costs of two country or regional programs. The results of these pilots will inform the development of possible alternatives or revisions to the current budgeting approach for USAID operating expenses.

In addition to improving our own management systems and processes, we are emphasizing with our partner countries the importance of performance and transparency to their development. USAID will be looking to work with countries which are committed to making these improvements in their own societies.

Conclusion

Our FY 2005 budget request sets priorities that move the President's economic growth and governance agenda forward in ways that promote aid effectiveness and real transformation. It also helps states not yet committed to transformation move toward stability, reform, and recovery. The assistance addresses global and transnational ills, supports individual foreign policy objectives in geostrategically important states, and continues USAID's premier capacity to offer humanitarian and disaster relief to those in need. The FY 2005 budget reflects the changed circumstances in which USAID now operates post-September 11 and our efforts to meet the complex challenges of the new era, and provides the resources for needed administrative costs, management systems and new construction that will allow USAID to fulfill its mandate.

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